

Chapter 35: Exam practice question

Gillette: managing product innovation

1 Define the following terms:

a innovative products (2)

These are products that originate from the practical application of new inventions. They may have incurred substantial R&D costs. They can, however, result in substantial benefits to the business and to the country in which it operates. Some businesses are more likely than others to go through substantial change by innovation, e.g. high tech or pharmaceuticals.

b trademarks. (2)

These are distinctive names, symbols, mottos or designs that identify a business or its products. Trademarks can be legally registered and cannot be copied.

Apply **Resources table 3a** mark band descriptors.

2 Explain how the use of innovative products and trademarks can add to the value of a company such as Gillette. (4)

The value of a company is increased when either the capital employed is boosted by retained earnings or share prices raise the market value.

This can occur because innovation:

- differentiates Gillette from competitors → sales up → profits up → company value up
- helps keep Gillette ahead of the competition → sales up → profits up → company value up
- innovation improves company image, which in turn may boost sales and therefore profits
- any other relevant point.

Apply **Resources table 3b** mark band descriptors.

For full marks the student must demonstrate a full understanding of **two** aspects of company value.

3 Analyse the importance of companies such as Gillette continuing to spend large sums on R&D even in a global downturn. (8)

Why it is important to spend large sums on R&D:

- image
- stay ahead of competitors
- continued customer loyalty
- premium prices
- lower costs (sometimes)
- any other relevant point

Why it is less important to spend large sums on R&D:

- existing products may have the potential to produce long-term profit
- patents can protect designs for set periods
- for some products, innovation may not be an important element
- some innovations may not be patentable and so may be copied after high R&D spending
- any other relevant point

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is required.

4 Evaluate the factors that determine the level of innovation in an industry. **(9)**

Factors evaluated may include the following:

- speed of scientific advances in the industry and need of competitors to stay ahead
- willingness of consumers to pay premium prices for an innovative product
- speed of copying by competitors
- price elasticity of R&D expense
- profitability of the industry: more profitable industries may have more funding for innovation.

Evaluation requires the examination of **both** positive and negative aspects of each factor.

SL: apply **Resources table 1** mark band descriptors.

(SL questions do not usually go up to 9 marks, so the HL table is best used for SL students.)

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is usually required for a 9-mark question.